DURHAM

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CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

Date: **February 20, 2012**

To: **Thomas J. Bonfield, City Manager**
Through: **Wanda Page, Deputy City Manager**
From: **David Boyd, Finance Director**
Ann-Marie Sharpe, Risk Manager
Subject: **Annual Insurance Plan 2012-2013**

Executive Summary

Each year the Finance Department prepares an annual insurance plan for adoption by the City Council. The plan applies only to property & casualty insurance and is the basis for authorization of insurance purchases throughout the year. Most of the City's insurance renewals are due April 1st. The City's annual property & casualty insurance plan has been prepared jointly by the Finance Department and Arthur J. Gallagher, the City's property casualty and risk management broker/consultant.

The proposed 2012-2013 plan continues the existing insurance coverage. In addition to the specific coverages listed in the attachment, the City Manager may need to purchase other insurance and/or modify insurance coverage during the year as needed to protect the City's interest.

Recommendation

The Finance Department recommends that the City Council authorize the City Manager to:

1. Maintain the general insurance plan as attached and modify it as needed, provided the modifications are consistent with the City's overall risk management and financial objectives,
2. Purchase additional insurance throughout the year, as needed for special events, lease and contract requirements, new programs, and builders risk insurance; and
3. Expend an amount for all insurance premiums not to exceed $700,000.00 to maintain the annual insurance plan and make additional insurance purchases as needed beginning April 1st, 2012.

Background

Arthur J. Gallagher is the City's current broker of record and risk management consultant who handles the marketing of the City's insurance renewals. The cost of retaining AJG's services for the current fiscal year is $35,500.00. The cost of retaining a broker on contract is considerably less than that of independent agent commissions that would otherwise be built into the premiums.

The overall proposed insurance premium for policy year 2012 – 2013 represents a 3% increase over last year's premium. The City will see an 11% decrease in premium for Auto Physical Damage coverage on the City's large owned Fire/Emergency/Other vehicles. The City will also enjoy a 20% decrease in the Boiler & Machinery coverage; the new policy effective 09/01/11 includes substantially more coverage than the expiring policy. The

Property Insurance rate increased 10% from the expiring premium rate of $0.0382 per $100,000.00 of total insured value to $0.042 per $100,000.00 of total insured value. This is due to rate increases in the property market caused by the impact of new wind modeling required by insurance carriers in response to catastrophic events of the last year. Excess Liability premium increased by 5% while Excess Workers Compensation premium increased by 2%.

The Transportation Department will benefit from a flat renewal premium for the Auto Physical Damage coverage on the buses. The Housing and Development department will see a $2,700 premium reduction as they continue to sell the properties at Eastway Village. There are three (3) residential properties insured through Lloyd's – all three properties are currently listed for sale through MLS (multiple listing service), with total insurable values of $355,000.

Financial Impact
The cost of insurance premiums for general citywide policies are budgeted and paid from the City's Risk Fund. This fund is comprised of funding from the City's General Fund, Water and Sewer Fund and other enterprise funds that may contribute to the City's exposure.

Issues and Analysis
The City purchases insurance only when the terms and pricing of insurance are the most favorable risk-financing option, or when the loss potential is beyond the City's ability to retain the risk. The City retains all risk that is not transferred either by the purchase of insurance or by contract. Through its risk management practices, the City strives to identify risk and to make prudent choices concerning risk financing. Insurance policies are maintained for a one (1) year term, with appropriate adjustments throughout the year as necessary to reflect changes in risk.

The attached spreadsheet outlines the proposed coverages as follows:

- Excess Liability at $10 million limit with self insured retention (SIR) of $1 million;
- Commercial property at $300 million blanket limit with SIR of $150,000 and
- Excess workers compensation at $25 million limit with SIR of $1 million (we continue to evaluate other options)

SDBE Summary
This item was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City contracting.

Attachment
Annual Insurance Plan Policies and Premiums, 2012-2013